

AR26

ANNUAL
REPORT 1975
STRATHEARN
HOUSE GROUP
LIMITED



Financial Highlights

Year ended	December 27 1975	December 28 1974
Sales	\$55,761,000	\$58,564,000
Net earnings (loss)	(\$ 515,000)	\$ 612,000
Earnings (loss) per share	(18¢)	21¢
Working capital	\$ 6,127,000	\$ 7,812,000
Shareholders' equity	\$ 7,182,000	\$ 7,697,000
Shares outstanding	2,912,883	2,912,883



FROM:

Strathearn House Group Limited
637 Lake Shore Boulevard West
Toronto, Ontario
M5V 1A8

FOR FURTHER INFORMATION:

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STRATHEARN HOUSE GROUP REPORTSINCREASED EARNINGS FOR FIRST HALF

	<u>Six Months Ended</u> <u>June 28, 1974</u>	<u>Six Months Ended</u> <u>August 4, 1973</u>
Total Profit	\$ 778,000	\$ 580,000
Earnings per Share	\$ 0.27	\$ 0.20
Total Sales	\$ 29,807,000	\$ 17,780,000

(Aug. 15/74 --- A profit increase to \$778,000 or 27 cents per share for the six months ended June 28, 1974, over the \$580,000 or 20 cents per share earned in the corresponding period in 1973, was today reported by Strathearn House Group Limited.

In the first half-year Strathearn recorded sales of \$29,807,000 compared with sales of \$17,780,000 a year ago. Results this year include the operations of House of Braemore Furniture Limited and Standard Upholstery Company acquired in January, 1974.

Profits are after deducting the minority interest in the subsidiary company earnings.

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STRATHEARN HOUSE GROUP REPORTS

INCREASED EARNINGS FOR FIRST HALF

Six Months Ended August 4, 1973	Six Months Ended June 28, 1974		
\$ 280,000	\$ 778,000	Total Profit	
\$ 0.20	\$ 0.27	Earnings per Share	
\$ 17,780,000	\$ 29,807,000	Total Sales	

(Aug. 1974) --- A profit increase to \$778,000

or 27 cents per share for the six months ended June 28, 1974, over the \$280,000 or 20 cents per share earned in the corresponding period in 1973, was today reported by Strathearn House Group Limited.

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Profits, after deducting the minority interest in the subsidiary company earnings,

William H. Singer, president, said sales and earnings of the Braemore Furniture Group and Plastics Packaging Division are well above last year and demand is expected to remain high for the balance of the year. "Despite a tightening situation in the home construction industry, sales and earnings of the Building Products Division are at about the same level as last year," he said.

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To our Shareholders

Highlights of the financial position of your company for the fiscal year ended December 27, 1975 are presented on the facing page. The results indicate that we experienced a modest drop in sales and a more severe setback in profitability.

Strathearn House operates in three product lines — Furniture Manufacturing, Building Products and Plastics Packaging. Further information on these operations is presented later in this report.

The reasons for our performance this past year can be clearly identified so that shareholders may better appreciate the company's present position and the steps management is taking to improve performance.

1. The furniture business produced only a small profit for the year. For the first half there was reduced demand from retailers who carried forward large inventories from 1974 and, in the case of wood furniture, increased import competition. Demand improved in the last half of the year and upholstered furniture operations for the year were profitable. With regard to wood furniture there was the need to develop distinctive, acceptable product lines and to complete integration and rationalization of production, which was costly. New wood products were designed and engineered and these have been favourably received. With the long lead time required for wood furniture from the planning stage through production to delivery there was no significant impact on sales from the new products until late in the year. Progress has been achieved in rationalizing production. In the last quarter sharply higher production of wood furniture more than offset the effect of a sharp decline in demand for television cabinets.

2. The building products division suffered from the severely depressed housing market of 1974 which carried forward into 1975 and also incurred losses as a result of sharply falling lumber prices. While there was a significant improvement in the last half of the year the division had a major loss for the year as a whole. For the current year it is considered that the combination of a good housing market and steps taken to strengthen division management and controls will produce improved results.

3. Throughout 1975 the plastics packaging division, which is relatively small compared with the other two divisions, continued to be profitable.

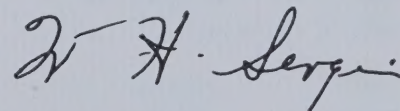
Outlook

Better economic conditions coupled with some measure of success in management's attempts to improve the weak areas of the company's operations give cause for a degree of optimism for our prospects for 1976.

Our sales at the January furniture show in Toronto were above expectation and the year was started with the largest volume of orders we have ever had. Indeed, our present order position is more than satisfactory to enable the planning of efficient production levels. In the first three months of the current fiscal year, production volume was greatly advanced from the same period in the previous year. As we look ahead for the year, we have increasing confidence in the viability of both our wood and upholstered product lines as major factors in the furniture industry.

There is already some evidence that Canada's economy will be improved in 1976, with economists forecasting some growth in real terms in Gross National Product. However, the effects of the federal Government's anti-inflation program are still to be fully realized and its impact on the economy cannot be accurately assessed. Your company supports the Government in its fight to bring inflation under control and intends to do as much as possible to help make the AIB regulations work.

On behalf of the Board, I extend thanks to our management and staff for their dedicated efforts.



President and
Chief executive Officer

Toronto
April 15, 1975

Consolidated Statement of Earnings

	Year ended December 27, 1975 (\$000)	Year ended December 28, 1974 (\$000)
Sales	\$55,761	\$58,564
Expenses		
Cost of sales and expenses	54,144	54,162
Depreciation and amortization	698	707
Interest on long-term debt	667	708
Interest on current debt	1,103	1,297
	<u>56,612</u>	<u>56,874</u>
Earnings (loss) before income taxes	(851)	1,690
Income taxes (note 1e)	(357)	707
	<u>(494)</u>	<u>983</u>
Minority interest in subsidiaries' earnings	21	371
Net earnings (loss) for the year	<u>(\$ 515)</u>	<u>\$ 612</u>
Earnings (loss) per share (note 6)	<u>(\$ 0.18)</u>	<u>\$ 0.21</u>

	Year Ended December 27, 1975 (\$000)	Year Ended December 28, 1974 (\$000)
Consolidated Statement of Retained Earnings		
Balance, beginning of year	\$ 1,915	\$ 1,303
Net earnings (loss) for the year	(515)	612
Balance, end of year	<u>\$ 1,400</u>	<u>\$ 1,915</u>

Consolidated Statement of Changes in Financial Position

	Year Ended December 27, 1975 (\$000)	Year ended December 28, 1974 (\$000)
Working capital provided by		
Net earnings (loss) before minority interest	(\$ 494)	\$ 983
Charges not requiring the current outlay of working capital		
Depreciation and amortization	698	707
Deferred income taxes	(705)	571
Funds from operations	(501)	2,261
Proceeds of term bank loan	—	1,500
Issue of common shares by a subsidiary	—	1,250
Issue of promissory notes for acquisitions	—	1,812
Working capital acquired on acquisitions	—	3,155
Finance company notes	282	182
Leases and mortgage payable	72	—
Reduction in deferred charges	37	—
	<u>(110)</u>	<u>10,160</u>
Working capital used for		
Acquisitions	—	4,553
Purchase of fixed assets (net)	916	1,355
Decrease in long-term debt	644	620
Research and development	—	38
Deferred charges	15	—
	<u>1,575</u>	<u>6,566</u>
Increase (decrease) in working capital	(1,685)	3,594
Working capital, beginning of year	7,812	4,218
Working capital, end of year	<u>\$6,127</u>	<u>\$7,812</u>
Components of increase (decrease) in working capital		
Increases (decreases) in current assets		
Accounts receivable	\$5,758	\$1,133
Income taxes refundable	(543)	720
Inventories	(939)	6,029
Prepaid expenses	38	(57)
Deposit on purchase of land	—	(218)
	<u>4,314</u>	<u>7,607</u>
Decreases (increases) in current liabilities		
Bank indebtedness	(7,882)	1,751
Bankers' acceptances	6,000	(5,000)
Accounts payable	(4,874)	(990)
Income taxes payable	(21)	514
Mortgage advances and deposits	808	71
Current portion of long-term debt	(30)	(359)
	<u>(5,999)</u>	<u>(4,013)</u>
Increase (decrease) in working capital	<u>(\$1,685)</u>	<u>\$3,594</u>

Consolidated Balance Sheet

AS AT DECEMBER 27 1975

Assets	1975 (\$,000)	1974 (\$,000)
Current		
Accounts receivable	\$16,117	\$10,359
Income taxes refundable	177	720
Inventories (note 1b)	14,033	14,972
Prepaid expenses	280	242
	<u>30,607</u>	<u>26,293</u>
Fixed		
Land	473	484
Buildings	2,146	2,109
Equipment and leasehold improvements	9,187	8,329
Total, at cost	11,806	10,922
Accumulated depreciation (note 1c)	6,120	5,455
	<u>5,686</u>	<u>5,467</u>
Other		
Deferred charges, at cost less amortization	86	108
Deferred income taxes (note 1e)	396	—
Goodwill (note 1d)	5,323	5,324
	<u>5,805</u>	<u>5,432</u>
	<u>\$42,098</u>	<u>\$37,192</u>

Auditors' Report

To the shareholders,
Strathearn House Group Limited

We have examined the consolidated balance sheet of Strathearn House Group Limited and its subsidiaries as at December 27, 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
February 27, 1976.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 27, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wm. Eisenberg & Co.
Chartered Accountants

Liabilities	1975 (\$,000)	1974 (\$,000)
Current		
Bank indebtedness (note 3)	\$12,473	\$ 4,591
Bankers' acceptances (note 3)	1,000	7,000
Accounts payable and accrued charges	10,322	5,448
Income taxes payable	21	—
Mortgage advances and deposits on sale of houses	—	808
Current portion of long-term debt (note 4)	664	634
	<u>24,480</u>	<u>18,481</u>
Long-Term Debt (note 4)	7,090	7,380
Deferred Income Taxes (note 1e)	—	309
Minority Interest	<u>3,346</u>	<u>3,325</u>
 Shareholders' Equity		
Share capital		
Authorized		
5,000,000 Class A shares, fully participating, non-voting, without par value		
1,000,000 Class B shares, fully participating, voting, without par value, each convertible into a class A share at the holder's option		
100 Common shares, without par value		
Issued (note 5)		
2,510,975 Class A shares	4,983	4,975
401,908 Class B shares	799	807
	<u>5,782</u>	<u>5,782</u>
Retained earnings	1,400	1,915
	<u>7,182</u>	<u>7,697</u>
	<u>\$42,098</u>	<u>\$37,192</u>

ON BEHALF OF THE BOARD

W. H. Singer, *Director*

W. Posluns, *Director*

Notes

to Consolidated Financial Statements
as at December 27, 1975

1. Accounting policies

a. Basis of consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

Wholly-owned

Ackripak Limited
Cadillac Building Products Co. Ltd.
Cadnor Development Corporation
Macad Construction Limited
Cadillac Supertrim Ltd.

Partially-owned

House of Braemore Furniture Limited (58% owned)
and its subsidiaries

Wholly-owned by House of Braemore Furniture Limited

The Hespeler Furniture Company Limited
(including its division, American Frame)
Singer Lighting Co. Ltd.
Troister & Company Limited
Emanuel Products Limited
Roti-Wood Products (Fergus) Limited
COSF Products Limited (including its division,
Standard Upholstery Company)
Willison Wood Products Company Limited

Partially-owned by House of Braemore Furniture Limited

Thompson-Heyland Limited (60% owned)
Braemore Convertibles Limited (51% owned) (note 2)

All significant inter-company loans and transactions have been eliminated on consolidation.

b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

	1975 (\$,000)	1974 (\$,000)
Raw materials	\$ 6,292	\$ 7,160
Work-in-progress	2,747	3,224
Finished goods	4,994	4,588
	<u>\$14,033</u>	<u>\$14,972</u>

c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	2½%
Equipment and leasehold improvements	10%-33⅓%
Automotive	25%

d. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition. Goodwill acquired subsequent to April 1, 1974 will be amortized to earnings by the straight-line method over the estimated life of such goodwill for a period not exceeding 40 years (1975 amortization — \$1,000; 1974 — \$1,000). It is not the present intention of the company to amortize the goodwill acquired prior to April 1, 1974.

e. Deferred income taxes

	1975 (\$,000)	1974 (\$,000)
i. Income taxes provided in respect of timing differences between accounting and taxable income	\$ 345	\$ 546
ii. Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management these reductions are virtually certain to be realized	(741)	(237)
	<u>\$ (396)</u>	<u>\$ 309</u>

2. New subsidiary

House of Braemore Furniture Limited has a 51% interest in Braemore Convertibles Limited which was incorporated on February 28, 1975.

3. Bank indebtedness

The bank indebtedness and bankers' acceptances are secured by a pledge of book debts and inventories.

4. Long-term debt

	1975 (\$,000)	1974 (\$,000)
Promissory notes		
7% Unsecured, due February 15, 1983	\$3,435	\$3,617
8% Due March 1, 1979, secured by mortgage	536	577
Prime plus 1%, due April 1, 1979 (note 6)		
— Directors and officers	1,225	1,225
— Others	275	275
Non-interest bearing, due		
December 31, 1976	83	83
8½% due August 28, 1981	229	229
Finance company notes, secured by chattel mortgages	410	182
Term bank loan, prime plus 2%, repayable \$300,000 per annum	1,200	1,500
10.7% Industrial Development Bank loan, due April 22, 1979, secured by mortgages ...	120	156
10% Mortgage payable, due October 15, 1977	13	14
Leases and mortgages payable	228	156
	<u>7,754</u>	<u>8,014</u>
Due within one year	664	634
	<u>\$7,090</u>	<u>\$7,380</u>

5. Share capital

Class B shares are convertible to class A shares on a one-for-one basis. During the year, 4,299 class B shares were converted.

6. Earnings per share

The promissory notes due April 1, 1979 aggregating \$1,500,000 (note 4) which were issued by Braemore have subscription warrants attached entitling the holders to subscribe for a total of 75,000 treasury shares of Braemore. The effect on earnings would be anti-dilutive.

7. Lease commitments

Aggregate minimum rentals of properties are as follows:

	\$,000
Year ended December 25, 1976	\$ 725
The next four years	2,069
1981 to 1997	2,302
	<u>\$5,096</u>

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company during the current year amounted to \$205,000.

9. Pension benefits

The corporation is obligated under an agreement with a retired director and senior officer of Braemore for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

10. Anti-inflation legislation

The companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective on October 14, 1975.

11. Comparative figures

Certain of the 1974 comparative figures have been reclassified to conform with the presentation in the current year.

Product Lines

Furniture Group

The Braemore Group, which is 58 percent owned, is an integrated manufacturer offering a wide selection of upholstered furniture, wood furniture, accessories (such as lighting products and novelty furniture) and stereo and television cabinets. These products are marketed under such well-known trade names as House of Braemore, Troister, Standard, Singer Lighting and Emanuel.

Building Products Division

Cadillac Building Products is a major manufacturer and supplier of a broad range of products for use in house construction. In addition the company operates a retail outlet.

Plastics Packaging

Ackripak Limited, a wholly-owned subsidiary, is a manufacturer of rigid plastic containers used for packaging prepared food by supermarkets and fast food outlets.

Directors

W. Glied
President of Cadillac Building Products Co. Ltd.

J. F. Kay
President of Dylex Limited

I. A. Posluns
Executive Vice-President of Dylex Limited

J. I. Posluns
Executive Vice-President of Dylex Limited

***W. Posluns**
Secretary and Treasurer of Dylex Limited

***S. M. Sigel**
Partner, Messrs. Stitt, Baker & McKenzie, Solicitors

W. H. Singer
President of Strathearn House Group Limited

***A. H. Zaldin, Q.C.**
Senior Partner, Messrs. Zaldin and Fine, Solicitors

** Members of the audit committee*

Officers

W. Posluns
Chairman of the Board

W. H. Singer
President and Chief Executive Officer

J. F. Kay
Secretary & Treasurer

W. Glied
Vice-President

Transfer Agent and Registrar
National Trust Company, Limited

Auditors
Wm. Eisenberg & Co., Chartered Accountants

Bankers
Bank of Montreal

Listed On
Toronto Stock Exchange
Montreal Stock Exchange

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